TOPIC: EXAMPLES OF STATE PERFORMANCE FUNDING MODELS

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I. SUMMARY & BACKGROUND

Senate Bill 11-052 requires the Colorado Commission on Higher Education to adopt a performance funding mechanism for the state's public colleges and universities. This performance funding mechanism is to be tied to performance contracts, which must be executed between the CCHE and each institution or system's governing board no later than December 1, 2012. Pursuant to SB 11-052, performance funding will not be carried out until after (a) the 2015-16 fiscal year (the last year of tuition setting flexibility provided pursuant to SB 10-003), and (b) "restoration funding" (i.e., $706 million) has been reached. Nonetheless, on or before December 1, 2013, the Colorado Department of Higher Education must prepare a performance funding allocation model for the Colorado General Assembly.

The purpose of this discussion item is to present a variety of perspectives on performance funding models, including examples from several states. The goal is not to establish a final list of performance funding strategies, but rather to orient the members of the CCHE to the concept of performance-based funding and learn more about activities in other U.S. states.

II. STAFF ANALYSIS

Performance Based Funding[1] Historically, state appropriations to public colleges and universities have been made on the basis of enrollments rather than completions. As such, institutions often have had few state-based financial incentives to pay close attention to course and degree completion. However, given current and future workforce needs and state financial difficulties, higher education funding based solely on enrollments is being scrutinized while funding based on course or degree completion rates or other related performance indicators is being given serious consideration across the nation. States are considering ways to incent institutions to not just enroll students but also to ensure that they earn the credentials needed in the workplace.

Performance-based funding may represent a relatively small percentage of a state's higher education budget (in Colorado, performance-based funding would begin at 25% of revenue between $650M and $706M, or about 3% of overall funding at the "restoration funding" level), but some experts assert that it can lead to important improvements in system productivity. According to the Midwest Higher Education Compact, the challenge for states is to create a financing system that is clearly understood and yet flexible enough to account for differences in institutional mission and demographics. According to MHEC, common performance targets

[1] This section excerpted directly, with some augmentations, from the Midwestern Higher Education Compact (2009). *Completion-based funding for higher education*. Online resource. Available at: http://www.mhec.org/pdfs/0209completionbasedfunding.pdf

should probably not be applied uniformly to institutions with different roles, missions, and student demographics.

NATIONAL BEST PRACTICES In 2009, the Lumina Foundation produced a "tip sheet" on higher education performance funding[2]. This tip sheet was produced as part of the Making Opportunities Affordable initiative, in which Colorado was involved. Lumina's list of best practices, based upon the experiences of several states, was designed to assist policy makers in the development of performance-based funding allocation models. While recognizing that each state is unique, Lumina recommends that states follow the following approach:

- Start with a state goal
- Give institutions flexibility to achieve outcomes in ways that make sense to them
- Use a simple approach
- Allocate a small percentage of the overall budget
- Take into account differences among institutions
- Include incentives for graduating at-risk students

In addition to these objectives, Lumina recommends that, during the development of performance-based funding allocation models and related institutional strategies, policy makers observe a range of additional procedures:

- *Ask questions* about the educational needs of the state, what the data on course and degree completion show, and how new funding strategies would address the needs of the state.
- *Create high expectations* for moving beyond status quo or business as usual strategies.
- *Focus on key issues* and establish a clearly stated purpose with simple, measurable benchmarks.
- *Understand what factors influence performance and completion* on campus.
- *Involve higher education leadership* in goal setting. To realize meaningful improvements, higher education leaders must embrace change.
- *Recognize that one size does not fit all institutions*.
- *Promote collaboration*. Institutions of higher education must work across the P-20 spectrum and with businesses to realize meaningful state objectives.

Importantly, all of the above mentioned best practices recommended by the Lumina Foundation fit the process required pursuant to SB 11-052 very well, specifically, the establishment of a state master plan, followed by the development of performance contracts tailored to institutions' roles and missions, and then the incremental introduction of performance-based funding based upon the achievement of state goals. In addition, the timeline found in SB 11-052 provides ample opportunities to engage postsecondary leadership and develop meaningful and achievable statewide goals.

[2] Albright, Brenda N. (2009). Higher education performance funding 2.0. Lumina Foundation on Education. Indianapolis, IN. Available at: www.collegeproductivity.org/sites/default.files/resources/TipsheetonPerformanceFunding.pdf.

STATE EXAMPLES The following descriptions of strategies for performance funding in Indiana and Washington were taken directly from a report prepared by the Midwestern Higher Education Compact (MHEC), an organization similar in scope and purpose to the Western Interstate Commission on Higher Education (WICHE). The title of the MHEC report was "Completion-based Funding for Higher Education." It was prepared in February 2009 and is available at www.mhec.org.org/pdfs/0209completionbassedfunding.pdf. The description of the performance-based approach in Tennessee was acquired from the Tennessee Commission on Higher Education's website: www.ten.gov/thec. The description of the Pennsylvania system approach was excerpted directly from two documents, entitled "Pennsylvania State System of Higher Education 2011–2017 Performance Funding Program Conceptual Framework" and the "Pennsylvania State System of Higher Education System Accountability Program Measures 2000-2010," both provided to the Pennsylvania State System of Higher Education.

Indiana In the 2007-2009 biennium, Indiana adopted performance-funding incentives for degree completion, on-time graduation, and two-to-four-year transfer activity. Even though the percentage of funding derived from performance-funding incentives is relatively small, the value is set to increase over time and spans several budget cycles. The state's public higher education institutions were directed to shift the focus gradually from enrollments to outcomes.

For each additional bachelor's degree, higher education institutions would receive an additional $5,000, and for each additional associate's degree they would receive $3,500. For example, if a university produced 100 more bachelor's degrees in a given year than the prior year, it would receive an additional $500,000. The plan notes that it may be necessary to adjust the subsidy per credit-hour rate upwardly, which is currently $3,500, to offset any unintended and dramatic shifts in institutional funding as the formula is optimized.

The Indiana Commission for Higher Education is to consider *additional* ways (such as course completions) to incorporate performance-funding incentives into the state higher education funding formula as part of its future budget requests.

Washington The Washington State Board for Community and Technical Colleges (note: this board functions similar to the Colorado State Board for Community Colleges and Occupational Education [SBCCOE], not the CCHE) established an incentive funding program that rewards two-year colleges when students pass key landmarks, called "momentum points," on the way to a degree (see Addendum A for a description from the WSBCTC). In this system, colleges compete against themselves for continuous improvement. Funding for this system is stable, predictable, and cumulative over time.

Data from 2006-2007 were used to establish a baseline. In 2007-2008, colleges became familiar with and adopted the new measures; the year was considered a learning year for all colleges. The first performance year was 2008-2009. The system creates incentives to help students build and maintain their academic momentum toward higher achievement whether they are among the least prepared or the most college-ready. The dollar value per point is set conservatively so that funds available should cover all projected rewards. There is no upper limit to the number of points that can be earned by a college. If funds available do not cover all earned rewards, the unfunded points will be "banked" for incentive rewards the following year.

Tennessee In January 2010, Tennessee passed the "Complete College Tennessee Act." The legislation called for reforms in several areas, including student transfer, research collaboration, and funding formula policy. In particular, the Complete College Tennessee Act required the development of a performance-based funding model that tied in with the Tennessee Commission on Higher Education's master plan:

> "Develop, after consultation with the Board of Regents and the University of Tennessee Board of Trustees, policies and formulae or guidelines for fair and equitable distribution and use of public funds … that are consistent with and further the goals of the statewide master plan. The policies and formulae or guidelines shall result in an outcomes-based model" (Complete College Tennessee Act, 2010).

Prior to the Complete College Tennessee Act, the state used an enrollment based model, much like other states. These models provided incentives for enrollment growth rather than for excellence or productivity. However, in 2010, Tennessee became the only state to abandon its enrollment based model in full in favor of an outcomes-based approach.

The Tennessee design, which utilizes outcomes and an institution-specific weighting structure, and, according to the Tennessee Commission on Higher Education, is unique in higher education finance policy. Specific elements of the Tennessee Commission on Higher Education's approach include the following:

- All outcomes, save graduation rate, are counts rather than rates. Therefore, the outcomes model does not depend on an initial cohort.
- It includes any outcome achieved by any student at any time (part time, returning students, transfers, etc.).
- There are no state-imposed targets or pre-determined goals.
- Each institution's formula calculation is independent of other institutions.
- All state funding is up for grabs every year.
- No institution is entitled to some minimal level of appropriations that is based on prior-year funding.
- State appropriations have to be earned anew each year.

Figure 1 below was prepared by the Tennessee Commission on Higher Education to demonstrate the impact the outcomes-based funding model had on institutions in that state in 2011. The "enrollment model" column illustrates the state's funding levels prior to the introduction of an outcomes-based approach. The "outcomes model" column shows each institution's funding level under the new model. The "percent" column illustrates the difference between the outcomes-based model and the enrollment-based approach.

Figure 1: Tennessee Commission on Higher Education's Outcomes-based Funding Impact, 2011

University	Enrollment Model	Outcomes Model	Percent
Austin Peay	$25,017,700	$25,028,100	0.0%
East Tennessee	$44,149,100	$43,971,600	-0.4%
Middle Tennessee	$70,510,100	$69,890,400	-0.9%
Tennessee State	$28,269,900	$28,096,600	-0.6%
Tennessee Tech	$35,105,700	$35,089,500	0.0%
University of Memphis	$88,517,700	$88,586,500	0.1%
UT Chattanooga	$33,031,600	$32,739,200	-0.9%
UT Knoxville	$140,503,900	$140,932,100	0.3%
UT Martin	$23,373,800	$23,222,200	-0.6%
Community Colleges	$181,990,000	$182,272,700	0.2%

Pennsylvania In July 2000, the Pennsylvania Board of Governors directed universities in the Pennsylvania System of State Higher Education to begin reporting their performance according to a set of standardized numerical and descriptive indicators. The current System Accountability Program (SAP) provides a means of reporting on performance outcomes and identifying universities that demonstrate success and continued improvement in key areas related to student achievement, university excellence, and operational efficiency.

The System Accountability Program has evolved over time, ensuring that it is responsive to the expectations of the Board of Governors, the needs of the System and the universities. Performance reporting is rooted in the core values of the System; evaluation is based on System standards and driven by the goals identified in the System's Strategic Plan, *Leading the Way*. The continuing purpose of the SAP is to assess the overall performance of each university and the System as a whole; focus evaluation on achievement and improvement; serve as a portion of the president's annual evaluation; and demonstrate accountability for effective and efficient use of resources to students, the Governor, the General Assembly, and Pennsylvania citizens. The program was designed to be clear, understandable, and replicable.

- The primary focus is on results (outputs rather than inputs or throughputs).
- It is transparent and accessible.
- University efforts to distinguish themselves on programs, students, locations, and delivery methods is possible.
- The design reduces inter-institutional competition and supports collaboration.
- The program aligns with System and university strategic directions and System policies, e.g., allocation formula.

- The program aligns with national accountability efforts, including Middle States accreditation, Voluntary System of Accountability (VSA) requirements, and the EdTrust/NASH Access to Success initiative.

The PASSHE Performance Funding Program is designed to measure the outcomes of these efforts in the **success** of our students, comprehensive **access** to opportunity, and **stewardship** of our resources and the Commonwealth's communities and regions. To achieve the principles within these three themes, each institution commit to ten performance indicators (see Addendum B for a description of the PASSHE performance indicators) for a period of five years. The performance measures are organized into three groups. Each university has the opportunity to choose its measures within limitations. Any proposed measure should be derived from the university's strategic plan, have an element of risk as well as reward, have an external comparative base, and be capable of being quantified such that it can be determined if the university meets or does not meet the goal.

ADDITIONAL CONSIDERATIONS FOR COLORADO'S PLAN While the Colorado Commission on Higher Education is not required to prepare a direct performance-based funding system until December 1, 2013, the CCHE could recommend value-added modifications to other state policies for the purpose of reinforcing an outcomes-based approach. For example, the CCHE oversees the allocation method for the state's financial aid programs. Though it would not be advisable to introduce policy modifications that lead to adverse financial circumstances for students with financial need, the CCHE could consider the use of outcomes measures when determining financial aid allocation decisions.

Additionally, one of the ideas initially embedded in the College Opportunity Fund system (stipends and fee for service contracts) was to introduce performance-based, or market-like, approaches to the state's postsecondary finance system. This has heretofore not occurred, but the upcoming performance contract negotiations provide an opportunity to revisit the introduction of value-added approaches to COF that emphasize completion and retention rather than simply enrollments. For example, through the performance and fee for service contracts, the state and the institutions could negotiate that the COF stipend be weighted differently at the lower division and upper division levels. Such an option might provide additional value to credit accumulation and incent student retention and transfer. While a full description of the risks and benefits of these kinds of changes is beyond the scope of this discussion item, it is nonetheless important to constantly consider policy questions that may lead to improved student outcomes. For example,

- How might the state allocate financial aid in such a way to encourage institutions to close performance gaps between aid recipients and non-recipients?
- Could (and should) financial aid be used in such a way to reward outcomes/completions?
- Could COF stipends be allocated in ways that reinforce and incent retention, transfer, and timely completion rather than simply funding enrollments?
- What would such a system look like? What would the marginal benefits and costs be to the state's system of higher education?

III. STAFF RECOMMENDATION

No recommendation. For discussion only.

STATUTORY AUTHORITY

C.R.S. 23-1-108: Duties and Powers of the Commission with Regard to Systemwide Planning

Addendum A: Washington Student Achievement Initiative Momentum Point Calculation, Washington State Board for Community and Technical Colleges

How do Colleges Realize Student Achievement Rewards?

- A college derives financial rewards when its student achievement improves…that is, when the total momentum points earned by its students go up.

How will the Momentum Points be Calculated?

One point is awarded each time a college student….

- Makes nationally recognized standardized test gains in math or in English language reading or listening as measured by pre- and post-testing or by earning a GED or high school diploma
- Passes a remedial math or English course with a qualifying grade to advance toward college-level work
- Earns the first 15 college-level credits
- Earns the first 30 college-level credits
- Completes the first 5 college-level math credits
- Earns a certificate backed by at least one year of college, earns a two-year degree or completes an apprenticeship

How will the awards be distributed?

- Each college will receive awards for improvements in student achievement measured by net gains in its total momentum points. If a college's enrollments decrease, point increases will be calculated on prorated enrollments so that colleges are not penalized.
- The initial baseline year is 2006-07 and the first performance year is 2008-09.
- The first performance awards will be distributed in October 2009 and will become part of each college's base allocation.
- Subsequent awards will be distributed for *additional* improvements in a college's momentum points; that is, when total points above the most recent highest year increase or when the rate increases.

What is the dollar value of each momentum point increase?

- Prior to each academic year, SBCTC will set the dollar value per point based on the total dollars available for awards.

- If estimated total system points are less than the actual points achieved, excess points are "banked" and paid to the colleges in the following year.

How much money will be used to pay for increases in momentum points?

- Colleges received $1.75 million in 2007-08 as seed money for student achievement efforts, targeting TRIO eligible students, now part of colleges' base allocations.
- The Board has set aside $500,000 for the first performance year, to be distributed in October 2009, to become part of colleges' base allocations.

Addendum B: PASSHE Performance Indicators

Performance Indicators The mandatory and optional indicators for each theme are summarized below.

STUDENT SUCCESS

Group I: Two measures

1. Degrees Conferred (1.0)
    a. Number of associate, baccalaureate, and graduate degrees conferred (.50)
    b. Baccalaureate degrees awarded per FTE undergraduate enrollment (.50)

2. Closing the Achievement Gaps (1.0)
    a. Closing the Achievement Gap for Pell Recipients (.50)
    b. Closing the Achievement Gap for Underrepresented Minority (URM) Students (.50)

Group II: Universities can select from the following:

1. Deep Learning Scale Results—National Survey of Student Engagement (NSSE)(1.0)

2. Senior Survey—National Survey of Student Engagement (NSSE) (1.0)
    a. Academic challenge (.20)
    b. Active/collaborative learning (.20)
    c. Student/faculty interaction (.20)
    d. Enriching educational experiences (.20)
    e. Supportive campus environment (.20)

3. Student Persistence (1.0)
    a. Overall percentage of students returning for a third academic year (.50)
    b. Overall percentage of students returning for a fourth academic year (.50)

4. Value-Added—Senior CLA, CAAP, or ETS® Proficiency Profile Scores(1.0)

5. STEM Degree Recipients—Percentage of university degree recipients in high need programs such as science, technology, engineering, and mathematics(STEM) or health care (1.0)

ACCESS

Group I: Two measures

1. Closing the Access Gaps (1.0)
    a. Closing the Gap for Pell Recipients(.50)
    b. Closing the Gap for Underrepresented Minority Students (URM) (.50)

2. Faculty Diversity (1.0)

a. Percent of full-time tenure/tenure-track faculty who are nonmajority persons (.50)
b. Percent of full-time tenure/tenure-track faculty who are female (.50)

Group II: Universities can select from the following:

1. Faculty Career Advancement (1.0)1
   a. Percent of Associate Professors who are nonmajority(.25)
   b. Percent of Associate Professors who are female (.25)
   c. Percent of Professors who are nonmajority(.25)
   d. Percent of Professors who are female (.25)

2. Employment (Nonfaculty) Diversity (1.0)
   a. Percent of Executives who are nonmajority(.25)
   b. Percent of Executives who are female (.25)
   c. Percent of Professional staff who are nonmajority(.25)
   d. Percent of Professional staff who are female (.25)

3. Student Experience with Diversity and Inclusion—Measured by average of the combined scores of seniors on applicable NSSE items (1.0)

4. Student Diversity (1.0)
   a. Percent of total student enrollment who are federal Pell Grant recipients (.50)
   b. Percent of total student enrollment who are nonmajority(.50)

STEWARDSHIP

Group I: One measure

1. Private Support—Three-year average of total dollars raised(1.0)

Group II: Universities must select at least one from the following:

1. Facilities Investment—Composite measure of annual stewardship, operating effectiveness, and quality of service in the physical plant arena, as measured by the annual Sightlines Return on Physical Assets (ROPA)Study (1.0)

2. Administrative Expenditures as Percent of Cost of Education(1.0)

3. Instructional Productivity—Student credit hours as ratio of total FTE faculty (1.0)

4. Employee Productivity—FTE student/FTE employee (faculty and staff) (1.0)

University-Specific Indicators

Group III: Universities may create no more than two Group III indicators, which have to be approved by the Chancellor for inclusion in the performance funding program. Proposals should

follow the prescribed template for defining the performance indicator including the data source(s). The Accountability and Performance Funding Committee members are available to consult with universities to help develop successful indicators.